



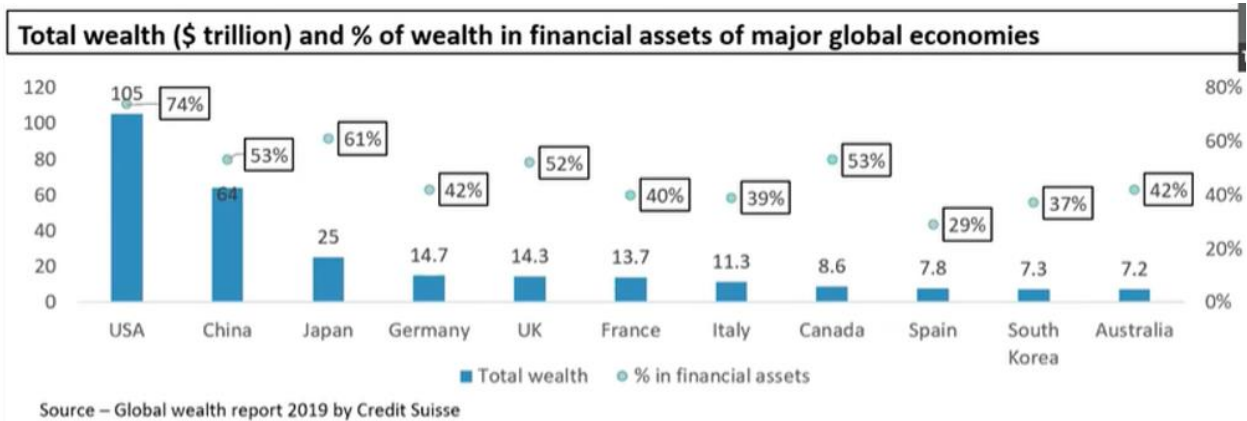
September 17, 2021

Portfolio Commentary

Financialization- a Mega Trend

'Hum hain naye, andaz kyon ho purana' – is a Bollywood song that reflects the Indian youth in their journey of financialization of savings.

In 2017, when the RBI committee released a report on household finance, 84% of Indian household wealth was in real estate and other physical goods, 11% in gold and only 5% in financial assets. Since then, value of real estate has declined and that of financial assets has surged higher. Currently, ~20% of Indian household wealth is in financial assets according to Credit Suisse's Global Wealth Report 2020, yet this number is much smaller than global peers (see chart below).



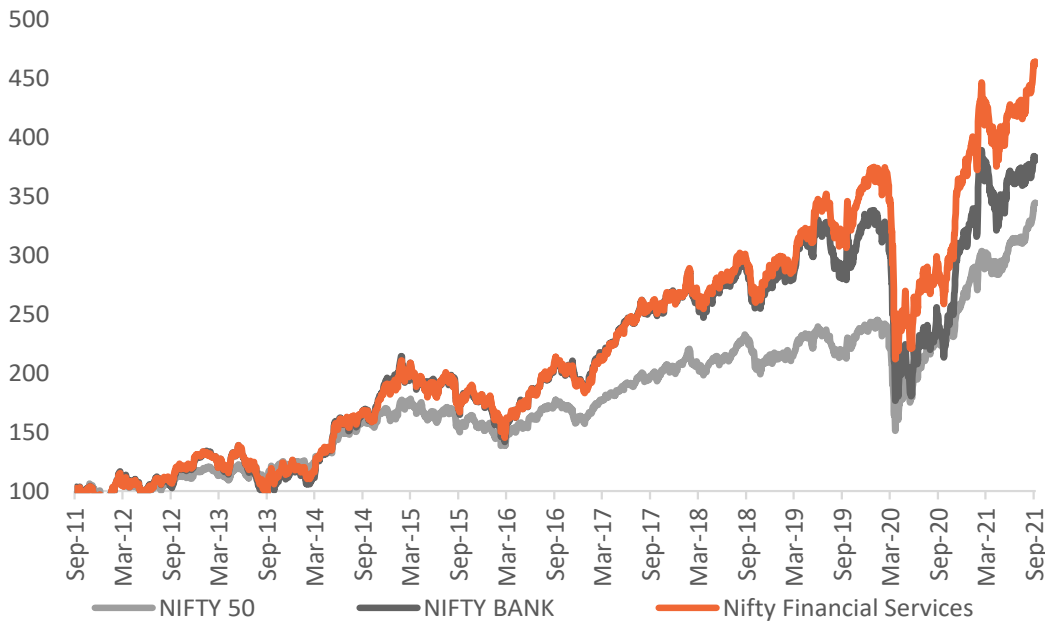
Historically capital appreciation, cultural preference, tangible nature of physical assets has been amongst the top motivation for investing in physical assets by Indian households. As a young, financially savvy and enterprising working population takes charge of the household, its' savings and investments patterns are changing. The plateauing of prices in real estate has only served the move away from real estate.

Demonetisation, increased digitalization (the JAM – Jandhan, Aadhar, Mobile trinity) has accelerated the trends of financialization of savings. Also, middle class Indian households continue to be especially reliant on informal, non-institutional sources of lending such as moneylenders and intra-family loans. Most Indian lenders haven't been able to penetrate this segment given the high cost of onboarding and servicing. With digitalization, these costs are being slashed and larger institutions are now working on gaining rapid presence in this lucrative segment. This could provide the next leg of growth for some of these financial institutions.

Another segment that we expect to see structural growth is gold lenders. According to estimates by the world gold council, Indian consumers are sitting on ~\$1.5 trillion (equivalent to the size of South Korea / Russia's economy) of Gold. Consulting firm KPMG in its 2020 report states that the total gold loans outstanding in the organized sector was estimated to be 5.5% of the total household gold holding in India. Currently organised lenders are estimated to account for 35% of the gold loan market share. This provides immense potential for organized gold lenders to benefit both from increased formalization and from growth in the sector as those holding gold realise the ease and convenience of monetizing gold.

While lenders may be the big brothers of the financial sector, non-lending financials too are growing at a healthy pace and are likely to continue doing so for the foreseeable future. Insurance premiums, mutual funds AUM, new demat accounts and credit cards have all shown 15-20% annualised growth over the last 5-6 years. Yet the penetration number of each of these services is either in single digits or low double-digit which in most cases is less than half of the world average. For example, mutual fund penetration in India is 11% vs the world average of 62%. Non-life insurance penetration in India is still 0.4x of the world average. Demat account penetration is at 4.1% while life insurance penetration is at 2.8%.

A strong financial sector is the backbone of any economy. The financialization trend has been rewarded in the equity markets as well. Bank Nifty has outperformed Nifty 50 Index in the last 10 years. Nifty Financial services which is a combination of lending and non-lending financial institutions have outperformed both the Bank Nifty and Nifty 50 Index in the last 5 years.



We believe these trends are sustainable from a multiyear perspective with an uptick in GDP growth and moderate inflation to lead to better sentiment in terms of job prospects and higher wages. Additionally, the shift from physical to financial savings will lead to financial assets gaining a larger share of the Indian household wealth pie and thereby sustenance of trends in the financialization of savings.

We have been believers in the value creation opportunity offered by financial equities for a long time. As a reflection of our conviction we launched ‘Sanctum Finedge’ last year and our model portfolio has outperformed its benchmark by nearly 10 percentage points. The strategy is now being managed as a discretionary PMS and its key objective is to construct a portfolio of 15-20 stocks with a combination of both lenders (banks & NBFCs) and non-lenders (like Insurance companies, brokerages, asset management companies, exchanges, and other financial intermediaries) that will benefit from these trends through their superior business models. The portfolio intends to benefit from the consolidation in the lending sector and the financialization of household savings.

Performance as on September 3, 2021	1 Month	3 Month	6 Month	1 Year	Since Inc.*
Model Portfolio Return	9.0%	14.3%	19.9%	63.8%	25.9%
NIFTYFINSER	9.9%	9.4%	10.9%	58.2%	15.9%

* Since Inception Returns are from 06-Feb-20

All returns are on TWRR basis, after fees and expenses

Market outlook

The market is acknowledging the broader recovery in the economy and thus we have seen more sectors participate in the rally. In August, large caps outperformed the rest of the market as mid and small caps took a breather after a stellar rally in the first four months of this fiscal.

The Q1 FY22 earnings were quite resilient considering the second wave of the pandemic. Sales & operating profits, ex-financials were down ~7% and PAT down by ~14% lead by lower other income on QoQ basis. The earnings growth forecast has been being largely sustained for the year. The current quarter earnings will be of significance as it will highlight the recovery in economic activities and normally the markets roll forward earnings estimation post second quarter earnings.

In-House Strategies

Our portfolios continue to fare well. The Q1 FY22 earnings and outlook on earnings are also strong. Hence, we haven't made significant changes to the portfolio. We have added weights to HDFC Bank across portfolios as the ban on issuing new Credit cards was partially uplifted by the RBI after 9 months. This was a drag on the growth outlook of the bank which could get resolved soon.

Performance of In-house PMS Strategies

Performance as on August 31, 2021	1 Month	3 Month	6 Month	1 Year	CAGR		
					2 Year	3 Year	Since Inc.*
Indian Titans	6.7%	15.1%	26.5%	55.8%	32.9%	16.4%	17.7%
NSE200 Index	7.5%	10.0%	18.9%	53.3%	25.9%	13.1%	16.7%

* Since Inception Returns are from 18-Nov-16

Performance as on August 31, 2021	1 Month	3 Month	6 Month	1 Year	CAGR		
					2 Year	3 Year	Since Inc.*
Indian Olympians	8.2%	11.7%	21.0%	46.5%	23.5%	15.2%	14.5%
NSE100 Index	8.3%	10.0%	18.5%	51.1%	24.8%	13.1%	14.3%

* Since Inception Returns are from 16-Sep-16

All returns are on TWRR basis, after fees and expenses

Performance is calculated using Time Weighted Returns, net of fees and expenses. Returns over 1 year are compounded annually, Returns for less than 1 year period are absolute. Please note that the performance information provided above is not verified by SEBI. Please note that past performance is not a guarantee of future performance.

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